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TERING "CAPITAL."

By JAMES LOVE,
Author of "Japanese Notions of European Political Economy."

In the highest questions there is some point of view within the reach of everybody, and it is this point of view I wish to seize and present.—*Madam de Stael.*

In order to attract and not repel, it is mighty hard select the opening words of an essay. For one wishes effort to be readable, and it is mortifying to find that he ks the tact to make it so. However, here goes. The ts anyway will be found interesting, let their presentation as it may.

Custom is slow to be established. But, when once ablished, it evidently is about as slow to change. And matter how monstrous accompanying evils may be, as y cannot readily be related to the custom, remedies will sistently be sought for elsewhere. A truism clearly to noted at this time when reformers, while justifying, even ogizing, a land system that permits the private appro- ation of "Rent," so perseveringly search in all other ections—temperance, charities, trades unions, immigra- n restraints, education, thrift, profit-sharing, rapid transit or social panaceas. Especially, so far as cities are con- ned, how common is the belief that cheap and quick riage by itself will solve the housing problem at least, if loes not remedy all other social ills.

Thus the Rev. Samuel Barnett, of Toynbee Hall, writes the *Nineteenth Century*) that the congestion can be re- ved by lower railway fares, quoting Mr. Charles Booth, ther man devoted to the relief of pauperism. "That proved locomotion is the first, if not the only, thing dful." And in *The Journal of Political Economy* a pro- sor says:—"The most effective way to break up slums o provide cheap means of transit. Reduce the car fares, the slum population will grow smaller." Adding that et cars ought to carry passengers "for what it costs to ry them and no more." And that to tax the corpora- ns and let the rates remain high "is to go about the ution of an important problem in the wrong way." But

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the good ale that makes folks speak as they think is not drunk in colleges. So, though he thinks that a tax on street car franchises is really "Rent" collected for public use, he says that such a tax "is to the highest degree unjust and impolitic." Yet is *rent* a mere matter of human arrangement to be avoided by a reduction of fares? Surely what the street franchisers—or the public through taxation—might fail to collect, the lot franchisers (lot owners) along the streets and at the termini would. Surely the accompaniment of a reduction of car fares should be the public appropriation, by taxation, of the consequent increase of lot rents.

Since the beginning of railways and tramways, and while the "means of transit" have been constantly cheapened and extended, has not the congestion been intensified? Have not land values ever grown? Are not business buildings more towering, the streets more crowded, the tenements more pitiful?

To the grief of reformers nothing works out a hoped-for result. There is a screw loose in the social loom. Instead of a fair and even texture there comes out but a tangled mass of threads. Instead of solving the housing problem as was fondly hoped, street railway companies make it more intricate. For not only do they fail to relieve congestion, but necessarily, *being monopolies*, they become extortionate, levying upon the people profits far beyond the legitimate interest of what capital they use. Although the extortions when analysed, I incline to believe, are really nothing more than "Rent." Rent of the land of the streets collected by individuals, and apparently no more extortious than is the rent of the land between the streets collected by other individuals. If to grant to individuals the land of the streets, for a limited time and limited purpose, results in evils, how about the grants to individuals, for unlimited time and unlimited purpose, of the land between the streets?

It seems to me that by following this out we may find the loose screw. And surely we need to find it. For as things are now—poverty prevailing not among the idle classes as it should, but among the working classes as it does, all ills let loose and hope shut up—it is hard to believe that God is just and Pandora a myth.

But in looking for this screw we must expect little aid from the professional men paid expressly to seek it—the

"Economists" of our schools. For where they figure to advantage is in pandering to popular error, whereby to sell their books, and to secure to themselves places of profit and titles of honour. Like the negro schoolmaster of Boker Washington's book, they are ever ready to teach that the world is round or is flat according to the preference of a majority of their patrons.

The exorbitant gains of railway monopolies are often, but not always, concealed by what is called "Watering Capital." A good example of one not watered is the F. and S. Company of Philadelphia. Incorporated as a horse car line in 1854, for 999 years the par of its shares was fixed at $50, though but $18 was called for. In 1893 it was leased for 999 years to a combination—the Electric Traction Company—which is bound to pay to each shareholder of the F. and S. Company $12 the first year, and thereafter a growing annual sum, to culminate in the tenth year at $18, after which $18 is to be the annual payment to end of lease. Its dividend in consequence is this year nearly ninety per cent., and next year and thereafter will be *one hundred per cent.* upon the amount paid in. The stock is now quoted per share at 460. But above this is the Electric Traction Company, which in turn has been leased, at a guaranteed dividend of over six per cent. on the par of its stock, to the great operating Company, the "Union Traction" (combination of smaller combinations, and now operating all the lines of the city), whose profits are growing, and whose stock—$17\frac{50}{100}$ paid in—is quoted at $32. The F. and S. stock, therefore, represents nothing but a franchise. The Company's real capital—stables, horses, tracks, cars—all long ago having worn out or become useless for an electric road. The Pennsylvania Railroad Company, on the other hand, has "Watered its Capital" by more than once making stock dividends. Yet its profits are so great, so certain, and *so likely to increase*, that making five per cent. dividends, its stock (par $50) is quoted at $75. And apart from this hiding process—this watering—the profits, instead of five per cent. annually, would probably show as twenty per cent. or more.

As to the exactions of English railway companies, an Oxford professor—Thorold Rogers—remarks that "a halfpenny a mile would have produced great dividends had not the nominal capitals, because of the blindness, rapine, and recklessness of their managers, "been increased three-

fold," &c. Admitting the exactions, though attributing them seemingly to this watering of capital. But do the companies really water their *capital?* Take the Pennsylvania Railroad. This company possesses *capital*—its tracks, bridges, locomotives, coaches, cars, round houses, machine shops, machinery, freight and passenger depot buildings, &c. It also possesses *land* to wit. That occupied by its tracks—long strips right through cities and across rivers—2700 miles in length in Pennsylvania, and over 6300 in other States. Also the sites of the round houses, shops, depots, besides great tracts used for yards and for harbour fronts. Now, surely the stock dividends made by this Company did not represent any increase in the value of its *capital.* For capital is constantly wearing out, and must be replaced, while its legitimate returns—current interest—had been paid right along in cash dividends to stockholders. Its stock dividends—its watering of "capital"—represented simply the increased value of its land.

But while we are distressed by the watering of "capital" and monopoly profits made by the railroad companies, does there not go on all about us all the time, though in far more extensive way, the same evil in an unrecognized form? So unrecognized that the fact that some land has sold for several millions an acre is cited as a matter of civic pride? While we denounce the great profits of the franchisers of *the land of the streets*, are we not apt to admire the judgment or luck of the franchisers of *the land between the streets?*

Let me illustrate. At the north-west corner of Fifteenth and Chestnut Streets, in Philadelphia, there is a lot, about 140 feet by 180 feet in size, that was lately passed to a syndicate for one million dollars. Now, as if providentially intended to arouse later generations, this lot was first sold by the giftee of James II., William Penn, for five dollars (one pound sterling) to five of his co-religionists, organized as a company, and possessing a perpetual charter, whose only proviso was that there never should be more than five shares, and never less than five shareholders. (As being non-essential, the recorded explanation of this curious freak of the time I omit). Wise in its generation, and looking to the future for big returns, the company promptly leased the lot for fifteen years at two shillings—50 cents.—a year. The lessee, as in all subsequent leases, to pay the taxes. In 1700 it was leased to a market gardener for ten

years at one dollar a year. In 1710 re-leased to same tenant for ten years at $3 a year. In 1720 it was leased for twenty years at $12 a year to a tenant, who built a large dwelling upon it. In 1740 the same lessee took it for ten more years at $25 a year. In 1750 it was again leased for ten years at same rent. In 1760 it was leased for twenty-five years at $35 a year to a builder, who put three frame dwellings on it. In 1785 it was leased to same tenant for fifteen years at same rent. In 1800 again leased to same for ten years at $40 a year. In 1808 these buildings were destroyed by fire. The lot was again leased in 1810 for thirty years at $70 a year. The lessee building thereon seven two storey brick buildings. In 1838 the congregation of the Church of the Epiphany, desiring a site for a new building, bought remainder of lease, and the dwellings (which they razed), and securing a new lease for fifty years at an average rent of $1200 a year, erected a large church with a Doric portico, which was used by the congregation until about 1890. When the company, not finding a ready lessee, and as the lot's value was growing rapidly, it was allowed to remain practically unused until in 1900 (John Wannamaker in the meantime having offered six hundred thousand dollars for it), the lot was sold (the courts permitting) for one million dollars to a syndicate, which will erect a tall office building on it.

The foregoing, from the records of the Company, may be tabulated thus :—

Statement of the Pioneer Land Company. A.D. 1900.

Capital none. The original five dollars having been exchanged for **Land.**

Year.	Annual Rent.	Dividend Per Cent.	Estimated Value of Lot.	Estimated Value Per Share.
1685	$ .50	10	$ 8.	$1.60
1700	1.	20	17.	3.40
1710	3.	60	50.	10.
1720	12.	240	200.	40.
1740	25.	500	400.	80.
1760	35.	700	600.	120.
1800	40.	800	700.	140.
1810	70.	1,400	1,200.	240.
1838	1,200.	24,000	25,000.	5,000.
1892	24,000.	480,000	600,000.	120,000.
1900	40,000.	800,000	1,000,000.	200,000.

The capital from time to time used on this lot has gone the way of all capital. Fences have rotted away. Orchards, sheds, machines worn out. Houses pulled down, in one case burned down. And lastly, the church—capital surely, but capital used not to produce more capital, or "wealth" in any shape, but used for rendering the direct services of religious instruction and consolation—has quite lost its value, as the material is worth less than the cost of removal.

It is in confusing *Interest* with the profits of monopoly—*Capital* with *Land*—that caused Aristotle to treat interest as a wrong, Dante to place userers in hell among those who do violence to God and man, modern Socialists to denounce "Capitalism," and many well meaning but bewildered men to suggest plans for harmonizing what never ought to be, and never can be harmonized—Labour and *Monopoly*.

The franchise to a street is usually for a limited time, and always for a limited purpose. But the franchise to a lot is for all time (as long as rivers run and birds sing, by Penn's deeds), and for any purpose. And under such grants to Land Companies, or to individuals I do not see how their dividends can be forced down—except by the institution of the Single Tax—whether their mis-named "Capital" is watered or not watered.

The lot that James *gave* to Penn, and that Penn sold to the Pioneer Land Company for five dollars—in no way changed *except in its relations to population*—now has a rental value of $40,000 a year. And the stock of the Company, the share value of which is one dollar mind you, has, because of annual dividends of $8000, risen to $200,000 a share.

We complain bitterly of monopolistic railway companies that are making annual dividends of 15, 20, 30, or even 100 per cent. on their unwatered "Capital," and part of which is usually returns to real capital used in conveying passengers and freight, but overlook the spoliations of Pioneer Land Companies *using no capital at all*, yet making dividends of **eight hundred thousand per cent!**

In the same way, practically, Penn conveyed all other land, including agricultural and mining land, though ordinarily bought and sold not as stock, but as land at current prices, the absorbing effect, as in "Watering," is less easily seen. But the same results follow—that while Interest the returns to capital-owners, and Wages the returns to labour-

owners do not tend to rise, *Rent* the return to Landowners—as population grows and invention goes on—does rise, and with a force that tends to sweep up the entire gains. And even so when capitalist, labourer, and landlord are united in one person. Though owing to the steam-made accessibility of unoccupied land in the Far West, Canada, and across the seas, wages and interest may not have fallen as a *quantity*—may, indeed, in some places have gained—they have fallen as a *proportion* of the produce. For notwithstanding that during the nineteenth century the general power of producing wealth has increased probably fifty fold, it would be difficult to show that wages (meaning returns to all labour) of mechanics, clerks, teachers, merchants, farmers, have anywhere as a *quantity* more than doubled. While in much of the world, as in the south and east of Europe and in Asia, they have not gained at all. Following the same law *Interest*, the returns to capital, is lower than ever in Europe, and is always lower in old countries where land is dear than in new countries where land is more accessible.

It could only have been little by little, through a course of centuries, that such palpable truths became obscured. And though by their rejection men have long been hampered in the daily supply of their daily wants, and in the matters of ethics, political economy, and politics, made to grope in the dark, their recognition will be hard. For there is now to be overcome, not argument, but the belief not resting upon evidence, that what has long been customary must necessarily be just. There is to be overcome the stifling effect of *custom* upon thought. And thus it is, as Seneca long ago observed, that "Men seeming to prefer belief to the exercise of judgment persist upon going on in the same ruts."

Another matter to note in the affairs of the Land Company. The value of its land rose much more slowly before the age of steam than since. A share at the end of the first century worth but $140—because of the vast additions made to man's productive power—sells, at the end of the second, for $200,000. Not representing any service that the Company has rendered, the lot's growing value is merely the value of a legal power to appropriate a fund manifestly belonging to the public—the rent of its land.

Again we do not properly estimate *land*. In 1871 a large part of Chicago was swept away by fire. A loss

estimated at two hundred millions. But really it was r
Chicago that was swept away. It was only much wea
there, including much capital. The real Chicago—t
Land and the People—remained. So that in less th
three years' time the labour of that people on that land b
far more than restored the burned-up wealth. Though,
ever, mostly appropriated by land owners, as is shown
the enormously increased rental value of the land.

. . . . . .

In the company of a philosophic friend one evening,
passing a pond, we stopped to listen to the melody of
numerable frogs. Said the philosopher they are love no
that we hear. And, mark you, how joyous are th
creatures guided by instinct compared with our kind left
the guidance of mind. Under similar circumstances y
and I, for instance, would be miserable in an incessa
mental struggle to outwit our neighbours, and in e
speculating upon the possibility of the pond drying up.

Yet, though we may not find joy in such a happy-
lucky way as the batrachians do, a state of social well-bei
is possibly attainable even beyond that of spring frogs
a pond. But to creatures endowed with reason as a gui
it is attainable in no other way than by a right use
reason. And Pandora will surely be more than a myth
long as we outrage that reason by tolerating the priv
appropriation of rent.

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